

**Exhibit 98: CompuServe Europe DCF Valuation**

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Free Cash Flow	(28.2)	(10.1)	9.4	34.3	50.9	69.2	84.5	102.4	118.6	138.0	
Add: After-Tax Interest (0 if Net Cash)	1.1	2.7	2.7	0.9	0.0	0.0	0.0	0.0	0.0	0.0	
Free Cash Flow to Firm (FCFF)	(27.1)	(7.5)	12.1	35.3	50.9	69.2	84.5	102.4	118.6	138.0	
% Change		-72.4%	-262.1%	190.7%	44.2%	36.0%	22.2%	21.1%	15.8%	16.4%	
Assumptions:											
Terminal Growth Rate	10.0%										
WACC	14.6%										
Terminal	21.8x										
Years to Discount	0	1	2	3	4	5	6	7	8	9	
		0	1	2	3	4	5	6	7	8	
			0	1	2	3	4	5	6	7	
				0	1	2	3	4	5	6	
					0	1	2	3	4	5	
						0	1	2	3	4	
							0	1	2	3	
								0	1	2	
									0	1	
										0	
Present Value of FCFF	(27.1)	(6.6)	9.3	23.8	30.1	35.9	38.5	40.9	41.6	42.4	
		(7.5)	10.6	27.1	34.3	41.0	43.9	46.6	47.4	48.4	
			12.1	30.9	39.1	46.7	50.0	53.2	54.0	55.1	
				35.3	44.6	53.2	57.1	60.6	61.6	62.9	
					50.9	60.7	65.0	69.1	70.2	71.7	
						69.2	74.1	78.8	80.0	81.7	
							84.5	89.8	91.2	93.1	
								102.4	104.0	106.2	
									118.6	121.1	
										138.0	
Sum of Present Value of FCFF Stream	229.0	291.9	341.3	375.3	387.6	383.9	358.7	312.6	239.6	138.0	
Present Value of Terminal Value	1,024.5	1,167.9	1,331.5	1,517.9	1,730.4	1,972.6	2,248.8	2,563.6	2,922.5	3,331.7	
Minority Interest in Germany	(62.7)	(73.0)	(83.6)	(94.7)	(105.9)	(117.8)	(130.4)	(143.8)	(158.1)	(173.5)	
Ending Net Cash (Debt)	(28.2)	(38.3)	(28.9)	5.4	56.3	125.5	210.0	312.4	431.0	569.0	
Net Present Value	1,162.6	1,348.5	1,560.2	1,803.9	2,068.4	2,364.1	2,667.2	3,044.8	3,435.0	3,865.2	
% Change		16.0%	15.7%	15.6%	14.7%	14.3%	13.7%	13.3%	12.8%	12.5%	

Source: Credit Lyonnais Securities estimates

Asia/Pacific

The Asian Internet is characterized by growth amid change. Moreover, the individual environments for Internet growth in the region are diverse, with the number of ISPs in a given country ranging from over 3,000 in Japan to only two in Malaysia.

Internet growth in the region has been hampered since the Asian economic crash of late 1997. The largest problem facing Asian ISPs was the devaluation of regional currencies, which raised the costs of connecting to the North American Internet backbone, costs which are normally denominated in dollars. In addition, international links, accounting for 40% of ISP costs, have risen substantially. Local ISP revenues, already under pressure due to competition from new entrants, are billed in local currencies.

As an illustration of the impact of the economic slowdown on Internet growth, officials in Thailand, one of the hardest-hit regions in Asia, were expecting Internet users in the country to number one million by the end of 1997 (before the onset of the economic crisis). To date, the number of Thai Internet subscribers is 500,000–600,000.

With most economies in the region at least showing signs of turnaround, the majority of projections call for Internet usage to resume its rapid growth. Two other catalysts for growth of Internet usage are the opposing forces of consolidation and deregulation. The fall of Asian currencies due to the economic crisis hit regional ISPs hard and created an environment ripe for takeovers, as did competing ISPs' needs to aggregate market share and provide a wider range of content and services.



At the same time, the Asian market is benefiting from long-overdue deregulation of its telecommunications industries. Historically, the dominant carrier, which usually started as a branch of the government, has remained protected from competition. The economic turmoil of the past two-plus years has brought greater involvement from the World Trade Organization, which has quickened the pace of deregulation.

In sum, we believe consolidation and deregulation will favor two types of ISP competitors in Asia: (1) the well-capitalized, multi-service provider able to service a broad market, and (2) the niche player focused on leading a particular market segment. The middle tier, we anticipate, will face the greatest downside.

Overall, we expect the Asian Internet market to resume its rapid growth track.

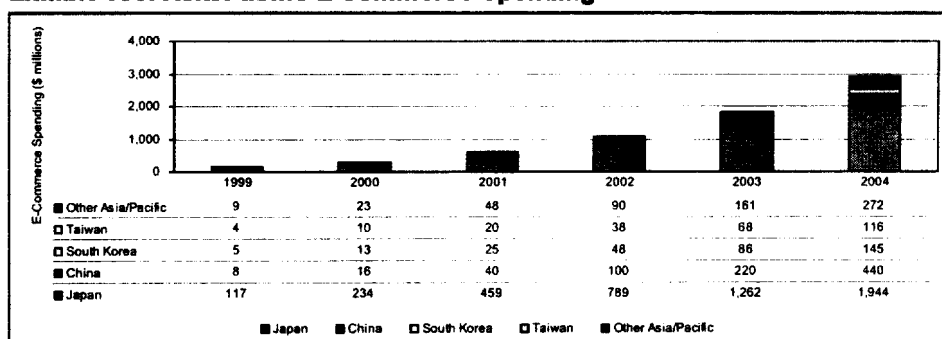
Exhibit 99: Asia/Pacific Internet Population

Bangladesh	7	127,118	14
China	3,565	1,246,872	43,950
Hong Kong	1,950	6,847	2,574
India	835	1,000,849	2,985
Indonesia	125	216,108	228
Japan	1,650	126,182	44,750
Malaysia	725	21,376	1,075
New Zealand	635	3,662	768
Philippines	375	79,346	683
Singapore	835	3,532	1,240
South Korea	1,950	46,885	5,681
Sri Lanka	16	19,145	43
Taiwan	2,650	22,113	3,550
Thailand	265	60,609	555
Vietnam	10	77,311	335
Total Asia/Pacific*	35,029	3,057,955	114,383

* Includes Australia

Source: Computer Economics

Exhibit 100: Asia/Pacific E-Commerce Spending



Source: Computer Economics



AOL Hong Kong

Exhibit 101: AOL Hong Kong Subscription Revenue Projections

(Millions)	1999	2000	2001	2002	2003	2004	2005	2006	2007E	2008E
Hong Kong Households	2.000	2.030	2.060	2.091	2.123	2.155	2.187	2.220	2.253	2.287
Internet Using Households	0.230	0.365	0.598	0.732	0.892	1.077	1.247	1.421	1.622	1.829
% Online	11.5%	18.0%	29.0%	35.0%	42.0%	50.0%	57.0%	64.0%	72.0%	80.0%
Subscribers (millions):										
Beginning	0.000	0.100	0.200	0.300	0.370	0.440	0.500	0.550	0.600	0.650
Additions	0.100	0.100	0.100	0.070	0.070	0.060	0.050	0.050	0.050	0.050
Ending	0.100	0.200	0.300	0.370	0.440	0.500	0.550	0.600	0.650	0.700
Average	0.050	0.150	0.250	0.335	0.405	0.470	0.525	0.575	0.625	0.675
x Average Monthly Subscription Rate	\$23.80	\$23.32	\$22.16	\$21.05	\$19.79	\$18.40	\$16.93	\$15.58	\$14.02	\$12.62
% Change		-2.0%	-5.0%	-5.0%	-6.0%	-7.0%	-8.0%	-8.0%	-10.0%	-10.0%
Total AOL Subscription Revenues	14.3	42.0	66.5	84.6	96.2	103.8	106.7	107.5	105.1	102.2
% Change		194.0%	58.3%	27.3%	13.6%	7.9%	2.8%	0.8%	-2.2%	-2.8%
Carrier Fees:										
Usage:										
Average Subscribers	0.050	0.150	0.250	0.335	0.405	0.470	0.525	0.575	0.625	0.675
x Average Daily Connections	0.7	0.7	0.8	0.8	0.9	0.9	0.9	0.9	1.0	1.0
x Average Monthly Connections per Average Subscriber	19.5	21.0	22.5	24.0	25.5	26.3	27.0	27.8	28.5	29.3
x Average Duration of Connection (Minutes)	10.0	11.0	11.6	12.1	12.7	13.4	14.0	14.7	15.5	16.3
= Average Usage per Subscriber Per Month (Hours)	3.3	3.9	4.3	4.9	5.4	5.8	6.3	6.8	7.4	7.9
x Average Monthly Subscription Rate Per Hour (-5% per Yr)	\$4.00	\$3.60	\$3.24	\$2.92	\$2.62	\$2.36	\$2.13	\$1.91	\$1.72	\$1.55
x 12 = Annual Carrier Fees	7.8	24.9	42.1	56.9	69.0	77.9	84.6	90.0	94.9	99.5
% Change		219.8%	68.8%	35.1%	21.4%	12.9%	8.6%	6.4%	5.5%	4.7%
Total Other AOL Hong Kong Subscription Revenues	22.1	66.9	108.6	141.5	165.2	181.7	191.3	197.5	200.1	201.6
% Change		203.1%	62.2%	30.3%	16.8%	10.0%	5.3%	3.2%	1.3%	0.8%

Source: Credit Lyonnais Securities estimates

**Exhibit 102: AOL Hong Kong Advertising and E-Commerce Revenue Projections**

	1999E	2000E	2001E	2002E	2003E	2004E	2005E	2006E	2007E	2008E
Advertising and E-Commerce Fees:										
Advertising:										
Average Subscribers	0.050	0.150	0.250	0.335	0.405	0.470	0.525	0.575	0.625	0.675
x Average Monthly User Sessions per Average Subscriber	19.5	21.0	22.5	24.0	25.5	26.3	27.0	27.8	28.5	29.3
x Average Page Views per Session	12.0	13.2	14.5	16.0	17.6	18.8	19.7	20.5	21.3	22.2
x 12 = Total Page Views in AOL Subscription Areas	140.4	499.0	980.1	1,541.0	2,177.4	2,783.2	3,357.6	3,930.7	4,563.5	5,260.6
Non-Subscription Areas										
Aggregate Average Monthly Unique Visitors	0.5	0.6	0.6	0.7	0.7	0.7	0.8	0.8	0.9	0.9
x Average Monthly User Sessions per Unique Visitor	3.0	3.2	3.4	3.7	3.8	4.0	4.2	4.4	4.7	4.9
x Average Page Views per Session	10.0	10.8	11.3	11.9	12.5	13.0	13.5	14.1	14.6	15.2
x 12 = Total Page Views in Non-Subscriber Areas	180.0	229.9	278.8	341.4	406.5	470.6	544.7	624.6	716.1	821.1
Total AOL Page Views	320.4	728.8	1,258.9	1,882.4	2,583.9	3,253.8	3,902.3	4,555.3	5,279.6	6,081.7
x Advertising Revenues Per Page View (+10% Yr)	\$6.00	\$6.90	\$7.94	\$9.13	\$10.04	\$11.04	\$12.15	\$13.36	\$14.43	\$15.58
Total Advertising Revenues	1.9	5.0	10.0	17.2	25.9	35.9	47.4	60.9	76.2	94.8
% Change		161.6%	98.6%	72.0%	51.0%	38.5%	31.9%	28.4%	25.2%	24.4%
E-Commerce Fees:										
Commerce Site Page Views—% of Total Annual Page Views	1.0%	1.1%	1.2%	1.3%	1.4%	1.5%	1.6%	1.6%	1.7%	1.7%
Page Views on Commerce Sites	1.4	5.5	11.8	20.0	30.5	41.7	52.0	62.9	75.3	89.4
x Take Rate (%) Weighted by Quantity Purchased per Purchase	5.5%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	12.0%	13.0%	14.0%
= Total E-Commerce Purchases	0.1	0.3	0.8	1.6	2.7	4.2	5.7	7.5	9.8	12.5
x Average Purchase/Download Price	\$35.00	\$36.40	\$37.49	\$38.62	\$39.78	\$40.97	\$42.20	\$43.46	\$44.77	\$46.11
= Total E-Commerce Purchases (\$ millions)	2.7	12.0	30.9	61.9	109.1	171.0	241.6	328.0	438.2	577.3
x AOL Commissions (%)	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
= AOL E-Commerce Fees	0.3	1.2	3.1	6.2	10.9	17.1	24.2	32.8	43.8	57.7
% Change		343.5%	157.5%	100.5%	76.3%	56.7%	41.2%	35.8%	33.6%	31.7%
Total Advertising and E-Commerce Fees	2.2	6.2	13.1	23.4	36.8	53.0	71.6	93.7	120.0	152.5
% Change		184.0%	110.0%	78.7%	57.7%	43.9%	34.9%	30.9%	28.1%	27.1%

Source: Credit Lyonnais Securities estimates

Exhibit 103: AOL Hong Kong Income Statement Projections

	1999E	2000E	2001E	2002E	2003E	2004E	2005E	2006E	2007E	2008E
Revenues:										
Subscription	22.1	66.9	108.6	141.5	165.2	181.7	191.3	197.5	200.1	201.6
Advertising, E-Commerce Fees and Other Revenues	1.9	5.0	10.0	17.2	25.9	35.9	47.4	60.9	76.2	94.8
Advertising	0.3	1.2	3.1	6.2	10.9	17.1	24.2	32.8	43.8	57.7
E-Commerce	0.3	1.2	3.1	6.2	10.9	17.1	24.2	32.8	43.8	57.7
Total Advertising and E-Commerce Fees	2.2	6.2	13.1	23.4	36.8	53.0	71.6	93.7	120.0	152.5
Total Consolidated AOL Hong Kong Revenues	24.3	73.2	121.6	164.9	202.0	234.7	262.8	291.1	320.1	354.1
% Change		201.4%	66.3%	35.5%	22.6%	16.2%	12.0%	10.8%	9.9%	10.6%
Costs of Revenues (Excludes 1/3 of Depreciation)										
	(19.4)	(54.9)	(85.2)	(108.8)	(125.3)	(138.5)	(149.8)	(160.1)	(169.6)	(180.6)
Gross Profit	4.9	18.3	36.5	56.0	76.8	96.2	113.0	131.0	150.4	173.5
% Margin	20.0%	25.0%	30.0%	34.0%	38.0%	41.0%	43.0%	45.0%	47.0%	49.0%
% Change		276.8%	99.5%	53.6%	37.0%	25.4%	17.4%	15.9%	14.8%	15.4%
Other Operating Costs:										
Sales and Marketing	(2.3)	(7.0)	(12.2)	(17.0)	(21.3)	(25.5)	(29.0)	(32.4)	(36.0)	(39.6)
Sales and Marketing per Average Analog Subscriber	(\$45.00)	(\$46.80)	(\$48.67)	(\$50.62)	(\$52.64)	(\$54.22)	(\$55.31)	(\$56.41)	(\$57.54)	(\$58.69)
Product Development	(3.0)	(7.3)	(10.3)	(11.5)	(12.1)	(12.3)	(12.5)	(12.4)	(12.0)	(11.5)
General and Administrative	(4.1)	(5.0)	(5.5)	(6.1)	(6.7)	(7.4)	(7.9)	(8.4)	(8.9)	(9.4)
Total	(9.4)	(19.3)	(28.1)	(34.6)	(40.2)	(45.2)	(49.4)	(53.2)	(56.8)	(60.5)
EBITDA	(4.6)	(1.0)	8.4	21.5	36.6	51.1	63.6	77.8	93.6	113.0
% Margin	-18.8%	-1.4%	6.9%	13.0%	18.1%	21.7%	24.2%	26.7%	29.2%	31.9%
% Change				154.2%	70.7%	39.4%	24.6%	22.4%	20.3%	20.7%
Depreciation and Amortization										
	(7.5)	(10.3)	(13.6)	(19.7)	(26.9)	(32.8)	(35.0)	(37.2)	(38.8)	(40.1)
Operating Income	(12.1)	(11.3)	(5.1)	1.7	9.8	18.3	28.6	40.6	54.8	72.9
% Margin	-49.7%	-15.5%	-4.2%	1.0%	4.8%	7.8%	10.9%	14.0%	17.1%	20.6%
% Change					473.4%	87.0%	56.4%	42.2%	34.8%	33.2%
Net Interest Expense										
	(1.7)	(3.2)	(4.9)	(6.3)	(7.2)	(6.4)	(4.5)	(1.2)	2.3	6.5
Pretax Income	(13.8)	(14.5)	(10.1)	(4.6)	2.6	11.8	24.1	39.4	57.1	79.5
% Margin	-56.7%	-19.9%	-8.3%	-2.8%	1.3%	5.0%	9.2%	13.5%	17.8%	22.4%
% Change						362.5%	103.5%	63.9%	44.7%	39.3%

Source: Credit Lyonnais Securities estimates



Exhibit 104: AOL Hong Kong Margin Analysis

	1999	2000E	2001E	2002E	2003E	2004E	2005E	2006E	2007E	2008E
Gross Margin	20.0%	25.0%	30.0%	34.0%	38.0%	41.0%	43.0%	45.0%	47.0%	49.0%
Operating Costs as a % of Revenues										
Sales and Marketing	9.3%	9.6%	10.0%	10.3%	10.6%	10.9%	11.0%	11.1%	11.2%	11.2%
Product Development	12.5%	10.0%	8.5%	7.0%	6.0%	5.3%	4.8%	4.3%	3.8%	3.3%
General and Administrative	17.0%	6.8%	4.6%	3.7%	3.3%	3.1%	3.0%	2.9%	2.8%	2.7%
Total	38.8%	26.4%	23.1%	21.0%	19.9%	19.3%	18.8%	18.3%	17.8%	17.1%
EBITDA Margin	-18.8%	-1.4%	6.9%	13.0%	18.1%	21.7%	24.2%	26.7%	29.2%	31.9%

Source: Credit Lyonnais Securities estimates

Exhibit 105: AOL Hong Kong Cash Flow Projections

	1999	2000E	2001E	2002E	2003E	2004E	2005E	2006E	2007E	2008E
Pretax Income	(13.8)	(14.5)	(10.1)	(4.6)	2.6	11.8	24.1	39.4	57.1	79.5
Depreciation and Amortization	7.5	10.3	13.6	19.7	26.9	32.8	35.0	37.2	38.8	40.1
After-Tax Cash Flow	(6.3)	(4.2)	3.5	15.1	29.4	44.6	59.1	76.6	95.9	119.5
Capital Spending	(15.0)	(15.0)	(24.3)	(33.0)	(40.4)	(35.0)	(35.0)	(35.0)	(35.0)	(35.0)
Free Cash Flow	(21.3)	(19.2)	(20.8)	(17.8)	(11.0)	9.6	24.1	41.6	60.9	84.5
Net Debt:										
Beginning	0.0	(21.3)	(40.5)	(61.3)	(79.1)	(90.1)	(80.5)	(56.4)	(14.8)	46.1
Ending	(21.3)	(40.5)	(61.3)	(79.1)	(90.1)	(80.5)	(56.4)	(14.8)	46.1	130.6
Average	(10.6)	(30.9)	(50.9)	(70.2)	(84.6)	(85.3)	(68.5)	(35.6)	15.7	88.4

Source: Credit Lyonnais Securities estimates

Exhibit 106: AOL Hong Kong Depreciation Schedule

	1999	2000E	2001E	2002E	2003E	2004E	2005E	2006E	2007E	2008E
Beginning PP&E	15.0	26.3	34.7	50.3	70.7	93.5	105.1	113.8	120.4	125.3
Capital Spending	15.0	15.0	24.3	33.0	40.4	35.0	35.0	35.0	35.0	35.0
Acquired PP&E										
Depreciation	(7.5)	(10.3)	(13.6)	(19.7)	(26.9)	(32.8)	(35.0)	(37.2)	(38.8)	(40.1)

Source: Credit Lyonnais Securities estimates

**Exhibit 107: AOL Hong Kong DCF Valuation**

						2007E					2008E
Free Cash Flow	(21.3)	(19.2)	(20.8)	(17.8)	(11.0)	9.6	24.1	41.6	60.9	84.5	
Add: After-Tax Interest (0 if Net Cash)	1.7	3.2	4.9	6.3	7.2	6.4	4.5	1.2	0.0	0.0	
Free Cash Flow to Firm (FCFF)	(19.6)	(16.0)	(15.9)	(11.5)	(3.8)	16.1	28.6	42.8	60.9	84.5	
% Change							78.1%	49.8%	42.2%	38.8%	
Assumptions:											
Terminal Growth Rate	11.5%										
WACC	15.1%										
Terminal	27.8x										
Years to Discount	0	1	2	3	4	5	6	7	8	9	
		0	1	2	3	4	5	6	7	8	
			0	1	2	3	4	5	6	7	
				0	1	2	3	4	5	6	
					0	1	2	3	4	5	
						0	1	2	3	4	
							0	1	2	3	
								0	1	2	
									0	1	
										0	
Present Value of FCFF	(19.6)	(13.9)	(12.0)	(7.6)	(2.2)	7.9	12.3	16.0	19.8	23.8	
		(16.0)	(13.8)	(8.7)	(2.5)	9.1	14.2	18.4	22.8	27.4	
			(15.9)	(10.0)	(2.9)	10.5	16.3	21.2	26.2	31.6	
				(11.5)	(3.3)	12.1	18.8	24.4	30.2	36.4	
					(3.8)	13.9	21.6	28.1	34.7	41.8	
						16.1	24.8	32.3	39.9	48.2	
							28.6	37.2	46.0	55.4	
								42.8	52.9	63.8	
									60.9	73.4	
										84.5	
Sum of Present Value of FCFF Stream	24.7	50.9	77.1	107.0	136.4	161.3	167.2	159.5	134.3	84.5	
Present Value of Terminal Value	739.0	850.6	979.0	1,126.9	1,297.0	1,492.8	1,718.2	1,977.6	2,276.2	2,619.8	
Ending Net Cash (Debt)	(21.3)	(40.5)	(61.3)	(79.1)	(90.1)	(80.5)	(56.4)	(14.8)	46.1	130.6	
Net Present Value	742.5	861.1	994.8	1,154.7	1,343.2	1,573.6	1,829.0	2,122.3	2,456.6	2,835.0	
% Change		16.0%	15.5%	16.1%	16.3%	17.2%	16.2%	16.0%	15.7%	15.4%	

Source: Credit Lyonnais Securities estimates

AOL Japan

Internet penetration surpassed 10% of the Japanese population in 1998. Most observers place Japan 3–5 years behind the U.S. in the development of the Internet, due mainly to a relatively low home PC penetration rate (estimated at 29% by IDC Japan), the high cost of local calls (see Exhibit 108 below), and a cultural business structure that suppresses entrepreneurial spirits despite a huge engineering talent base.

Exhibit 108: Comparative Internet Access Costs (Telephone and Local Access)

Country	Company	Access Cost
Australia	Telstra	OzEmail \$36.55
China	China Telecom	China Online \$36.51
Hong Kong	HKT	Netvigator \$31.78
India	MTNL	VSNL \$42.30
Indonesia	Telkom	Indosatnet \$26.68
Korea	KT	HiTel \$22.45
Japan	NTT	NiftyServe \$67.12
Malaysia	Telekom	TMNET \$18.42
New Zealand	TCNZ	Xtra \$32.34
Philippines	PLDT	Infocom \$40.90
Singapore	SingTel	SingNet \$25.58
Taiwan	Chunghwa	HiNet \$19.57
Thailand	TA	KISC \$22.18
U.K.	BT	Freemove \$55.26
U.S.	Bell Atlantic	AOL \$30.05

Source: Company reports and Tariffs



Japanese ISPs derive approximately 85% of their revenues from access fees, as both advertising and e-commerce are underdeveloped in Japan. Advertising accounted for an estimated \$117 million in 1999, less than 2% of total advertising in Japan. Forrester projects online advertising to grow at an average compound rate of 75% over the next five years to \$1.944 billion in 2004.

In our view, the break-up of Nippon Telegraph & Telephone (NTT—created by Japan's enforcement of WTO treaties) should increase telecommunications competition and reduce access costs. NTT was created in 1952 as a semi-independent organization charged with the task of reconstructing the country's infrastructure. It was partially privatized in 1985, although it continued to receive government protection until last year. About 65% of all users access the Internet through the NTT phone network, which has not lowered local access fees in 23 years. NTT, however, is testing a \$75 per month flat-rate service in Tokyo and Osaka and hopes to launch outside large cities over the next two years.

AOL Japan is a partnership in which AOL owns 50% (the other 50% being owned by Mitsui and Nihon Keizai Shimbun). The company launched in 1997 with high hopes of making Japan the largest international AOL market within a few years. There were two main reasons: (1) a highly sophisticated user base that numbered 7 million online users at the time and (2) a propensity for the user base to employ proprietary services (80% did so). But while the Japanese online population has indeed grown to 17 million Internet users, AOL Japan's base has struggled to reach 400,000, well short of the company's initial goal of 1 million.

We attribute this shortfall largely to two reasons:

1. Absence of an affiliation with a telecommunications carrier or a PC maker. A large portion of the Japanese user base has been captured by ISP offerings from PC makers, which give the ISP prominent desktop positions on newly-purchased PCs. AtNifty and Biglobe (ISP subsidiaries of Fujitsu and NEC, respectively) are the two largest Japanese ISPs, combining for 6 million members. Similarly, telcos have promoted their ISPs to their telephony customers.
2. Slower-than-expected mass acceptance of the AOL brand. Without promotional tie-ins with PC manufacturers or carriers, AOL Japan has not gained the ubiquitous marketing impressions the U.S. parent has. As such, AOL Japan has begun targeting demographic tranches (e.g., wireless device users and young PC-owning women in their 20s and 30s).

We project AOL Japan will be able to add 200,000–500,000 net subscribers over each of the next six years. Now at approximately 400,000, subscription to AOL has accelerated. It took AOL a year to sign up its first 100,000, but it added its latest 100,000 in roughly five months. We attribute AOL Japan's sluggish start to a mismatch of the tech-savvy early PC adapters in Japan and the easy-to-use leisure/recreational attributes of AOL. As PC penetration expands into the mainstream, we anticipate AOL take-up to accelerate.

Note that our model does not include broadband delivery modes (cable, wireless, et al). Our subscription rate assumptions are as follows (in accordance with the recently revised pricing plan): (1) \$9.40 per month for up to three hours; (2) \$18 per month for 15 hours and (3) \$29 per month for up to 150 hours. Usage is charged at a rate of \$0.08 per minute. AOL Japan also offers a "bring your own access plan" where it receives a \$9.40–\$23 per month fee in addition to separate access charges to the ISP. We derive a weighted average monthly subscriber rate of \$18.21, which we believe will decrease at a 7%–10% rate per year, although pricing could be under more pressure if ISPs enter the market. Thus far, the only free ISP in Japan is Livedoor, which has had 20%-plus increases in traffic since going to the free model in March 1999.



We believe the Japanese wireless market holds potential for AOL Japan; it has already taken a significant share of the total telecommunications market from wireline. For example, 1997 marked the first time that the fixed telephony market declined, while wireless penetration approached 30%. Subscriber penetration for people in their 20s is near 90%. Wireless data applications, such as NTT's I-mode, have already been introduced, allowing for voice, e-mail, and information services at a fraction of the cost of a fixed connection. Wireless operators currently charge a \$3–\$5 per month fee for Internet connection, as well as a volume-based fee on data downloads/transmissions.

As is the case with the rest of our AOL models, subscription revenue will carry decreasing importance in the overall business mix due to competition on both the carrier and ISP ends of the equation. We project advertising revenues to grow to over \$60 million by 2002 and \$167 million by 2004. Using Forrester Research's projections of nearly \$1.944 billion in online advertising in Japan in 2004, we project AOL Japan will capture 8.6% of the advertising market.

Although there are numerous cultural obstacles confronting its growth in the near term, we believe e-commerce will represent a meaningful category and revenue driver for AOL Japan. Aside from surprisingly low in-home PC and Internet penetration, other obstacles include a cultural aversion to the use of credit cards and a preference for in-person shopping. Change may occur, however, as many retailers, led by major electronics manufacturers, are attempting to recast themselves as portals for hybrid commerce, community, and content areas in hopes of slashing sales/marketing and overhead costs while gaining early entry in new market segments. Japan's Ministry of International Trade and Industry (MITI) projects online sales to reach ¥3.2 trillion (\$30 billion) by 2003. Our projections call for AOL Japan to channel \$600 million in online sales (or only 2% of the total Japanese e-commerce market) in 2003.

We present our AOL Japan projections in the following exhibits.

**Exhibit 109: AOL Japan Subscription Revenue Projections**

(\$ millions)	1999	2000E	2001E	2002E	2003E	2004E	2005E	2006E	2007E	2008E
Japanese Population	126.2	128.1	129.9	131.6	133.0	134.3	135.7	137.0	138.4	139.8
Average Household Size	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Japanese Households	39.4	40.1	40.7	41.3	41.8	42.3	42.8	43.3	43.8	44.3
Subscribing Online Japanese Households	15.8	18.0	20.3	22.7	24.7	26.6	28.2	29.8	31.5	32.8
	39.9%	44.9%	49.9%	54.9%	58.9%	62.9%	65.9%	68.9%	71.9%	73.9%
Subscribers (millions):										
Beginning	0.220	0.440	0.690	1.090	1.590	2.090	2.440	2.740	2.940	3.140
Additions	0.220	0.250	0.400	0.500	0.500	0.350	0.300	0.200	0.200	0.150
Ending	0.440	0.690	1.090	1.590	2.090	2.440	2.740	2.940	3.140	3.290
Average	0.330	0.565	0.890	1.340	1.840	2.265	2.590	2.840	3.040	3.215
Year-end Market Share	2.8%	3.8%	5.4%	7.0%	8.5%	9.2%	9.7%	9.8%	10.0%	10.0%
Subscription Rates:										
3-Hour Plan		\$9.40	\$8.46	\$7.61	\$6.85	\$6.17	\$5.55	\$5.00	\$4.50	\$4.05
15-Hour Plan		\$18.00	\$17.10	\$16.25	\$15.11	\$14.05	\$12.65	\$11.38	\$10.24	\$9.22
150-Hour Plan		\$29.00	\$27.55	\$26.17	\$24.34	\$22.64	\$20.83	\$19.16	\$17.63	\$15.86
Unlimited		\$46.00	\$41.40	\$37.26	\$33.53	\$30.18	\$27.16	\$24.45	\$22.00	\$19.80
Weighted Average "Bring Your Own Access" Monthly Subscriber Price		\$21.39	\$19.25	\$17.33	\$15.59	\$14.03	\$12.63	\$10.74	\$9.66	\$8.70
Estimated Subscriber Weightings:										
3-Hour Plan		35.0%	33.0%	31.0%	29.0%	27.0%	24.0%	21.0%	18.0%	15.0%
15-Hour Plan		40.0%	38.0%	36.0%	34.0%	32.0%	30.0%	28.0%	26.0%	24.0%
150-Hour Plan		15.0%	13.0%	12.0%	11.0%	10.0%	9.0%	8.0%	7.0%	6.0%
Unlimited		5.0%	11.3%	16.5%	21.8%	27.0%	33.3%	39.5%	45.8%	52.0%
"Bring Your Own Access"		5.0%	4.8%	4.5%	4.3%	4.0%	3.8%	3.5%	3.3%	3.0%
3-Hour Plan		38.9%	39.3%	39.2%	39.2%	39.1%	38.1%	36.8%	35.3%	33.3%
15-Hour Plan		44.4%	45.2%	45.6%	45.9%	46.4%	47.6%	49.1%	51.0%	53.3%
150-Hour Plan		16.7%	15.5%	15.2%	14.9%	14.5%	14.3%	14.0%	13.7%	13.3%
Weighted Subscription Rate:										
3-Hour Plan		\$3.29	\$2.79	\$2.36	\$1.99	\$1.67	\$1.33	\$1.05	\$0.81	\$0.61
15-Hour Plan		\$7.20	\$6.50	\$5.85	\$5.14	\$4.50	\$3.79	\$3.19	\$2.66	\$2.21
150-Hour Plan		\$4.35	\$3.58	\$3.14	\$2.68	\$2.26	\$1.87	\$1.53	\$1.23	\$0.95
Unlimited		\$2.30	\$4.66	\$6.15	\$7.29	\$8.15	\$9.03	\$9.66	\$10.07	\$10.30
"Bring Your Own Access"		\$1.07	\$0.91	\$0.78	\$0.66	\$0.56	\$0.47	\$0.38	\$0.31	\$0.26
Weighted Average Subscription Rate		\$20.94	\$18.21	\$18.44	\$18.28	\$17.76	\$16.51	\$15.80	\$15.09	\$14.33
Total AOL Subscription Revenues		82.9	123.5	197.0	293.9	392.1	465.7	513.0	538.5	550.3
% Change		71.3%	48.9%	59.5%	49.2%	33.4%	18.8%	10.1%	5.0%	2.2%
Additional Carrier Fees:										
Usage:										
Average Subscribers		0.330	0.565	0.890	1.340	1.840	2.265	2.590	2.840	3.040
x Average Daily Connections		0.7	0.7	0.8	0.8	0.9	0.9	0.9	1.0	1.0
x Average Monthly Connections per Average Subscriber		19.5	21.0	22.5	24.0	25.5	27.0	27.8	28.5	29.3
x Average Duration of Connection (Minutes)		10.0	11.0	11.6	12.2	13.0	13.8	14.6	15.3	16.1
= Average Usage per Subscriber Per Month (Minutes)		195.0	231.0	259.9	293.8	330.9	371.4	404.6	436.4	470.2
x Average Monthly Subscription Rate Per Minute (-5% per Yr)		\$0.10	\$0.08	\$0.07	\$0.06	\$0.06	\$0.05	\$0.05	\$0.04	\$0.04
x 12 = Annual Carrier Fees		77.2	125.3	199.8	306.2	426.1	529.9	594.1	632.2	656.4
% Change		137.1%	62.3%	59.5%	53.2%	39.2%	24.3%	12.1%	6.4%	3.8%
Equivalent Monthly Subscription Rate		\$40.44	\$36.69	\$37.15	\$37.32	\$37.06	\$36.63	\$35.62	\$34.35	\$33.08
Total Other AOL Japan Subscription Revenues		160.1	248.8	396.8	600.1	818.2	995.6	1,107.1	1,170.7	1,206.7
% Change		97.8%	55.3%	59.5%	51.2%	36.4%	21.7%	11.2%	5.7%	3.1%

Source: Credit Lyonnais Securities estimates

**Exhibit 110: AOL Japan Advertising and E-Commerce Revenue Projections**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Advertising and E-Commerce Fees:										
Advertising:										
Average Subscribers	0.330	0.565	0.890	1.340	1.840	2.265	2.590	2.840	3.040	3.215
x Average Monthly User Sessions per Average Subscriber	19.5	21.0	22.5	24.0	25.5	27.0	27.8	28.5	29.3	30.0
x Average Page Views per Session	12.1	13.3	14.6	16.1	17.7	19.0	19.9	20.7	21.5	22.4
x 12 = Total Page Views in Subscription Areas	934.4	1,895.1	3,518.2	6,215.3	9,974.6	13,910.8	17,166.2	20,105.1	22,970.8	25,912.7
Non-Subscription Areas										
Aggregate Average Monthly Unique Visitors	0.5	0.6	0.6	0.7	0.7	0.7	0.8	0.8	0.9	0.9
x Average Monthly User Sessions per Unique Visitor	3.0	3.2	3.4	3.7	3.8	4.0	4.2	4.4	4.7	4.9
x Average Page Views per Session	10.0	10.8	11.3	11.9	12.5	13.0	13.5	14.1	14.6	15.2
x 12 = Total Page Views in Non-Subscriber Areas	180.0	229.9	278.8	341.4	406.5	470.6	544.7	624.6	716.1	821.1
Total AOL Page Views	1,114.4	2,125.0	3,797.0	6,556.7	10,381.1	14,381.4	17,710.9	20,729.7	23,686.9	26,733.8
x Advertising Revenues Per Page View (+10% Yr)	\$6.60	\$7.26	\$8.35	\$9.60	\$10.56	\$11.62	\$12.78	\$14.06	\$15.18	\$16.40
Total Advertising Revenues	7.4	15.4	31.7	63.0	109.6	167.1	226.3	291.4	359.6	438.3
% Change	112.1%	109.8%	105.5%	98.6%	74.2%	52.4%	35.5%	28.7%	23.4%	21.9%
E-Commerce Fees:										
Commerce Site Page Views—% of Total Annual Page Views	1.2%	1.4%	1.5%	1.6%	1.7%	1.7%	1.8%	1.8%	1.9%	1.9%
Page Views on Commerce Sites	13.4	29.7	57.0	104.9	171.3	244.5	309.9	373.1	438.2	507.9
x Take Rate (%) Weighted by Quantity Purchased per Purchase	5.5%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	12.0%	13.0%	14.0%
= Total E-Commerce Purchases	0.7	1.8	4.0	8.4	15.4	24.4	34.1	44.8	57.0	71.1
x Average Purchase/Download Price	\$35.00	\$36.40	\$37.49	\$38.62	\$39.78	\$40.97	\$42.20	\$43.46	\$44.77	\$46.11
= Total E-Commerce Purchases (\$ millions)	25.7	65.0	149.5	324.1	613.2	1,001.6	1,438.7	1,946.1	2,550.3	3,279.0
x AOL Commissions (%)	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
= AOL E-Commerce Fees	2.6	6.5	14.9	32.4	61.3	100.2	143.9	194.6	255.0	327.9
% Change	131.4%	152.4%	130.1%	116.8%	89.2%	63.3%	43.6%	35.3%	31.0%	28.6%
Total Advertising and E-Commerce Fees	9.9	21.9	46.6	95.4	171.0	267.2	370.2	486.0	614.6	766.2
% Change	116.8%	120.8%	112.8%	104.4%	79.3%	56.3%	38.5%	31.3%	26.5%	24.7%

Source: Credit Lyonnais Securities estimates

Exhibit 111: AOL Japan Income Statement Projections

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenues:										
Subscription	160.1	248.8	396.8	600.1	818.2	995.6	1,107.1	1,170.7	1,206.7	1,225.6
Advertising, E-Commerce Fees and Other Revenues	7.4	15.4	31.7	63.0	109.6	167.1	226.3	291.4	359.6	438.3
Advertising	2.6	6.5	14.9	32.4	61.3	100.2	143.9	194.6	255.0	327.9
E-Commerce	9.9	21.9	46.6	95.4	171.0	267.2	370.2	486.0	614.6	766.2
Total Consolidated AOL Japan Revenues	170.1	270.7	443.5	695.4	989.2	1,262.8	1,477.3	1,656.7	1,821.4	1,991.9
% Change	98.8%	59.2%	63.8%	56.8%	42.2%	27.7%	17.0%	12.1%	9.9%	9.4%
Costs of Revenues (Excludes 1/3 of Depreciation)										
	(124.2)	(189.5)	(297.1)	(445.1)	(623.2)	(757.7)	(856.8)	(927.8)	(1,001.7)	(1,075.6)
Gross Profit	45.9	81.2	146.3	250.4	366.0	505.1	620.5	729.0	819.6	916.3
% Margin	27.0%	30.0%	33.0%	36.0%	37.0%	40.0%	42.0%	44.0%	45.0%	46.0%
% Change	123.7%	76.8%	80.2%	71.1%	46.2%	38.0%	22.8%	17.5%	12.4%	11.8%
Other Operating Costs:										
Sales and Marketing	(17.3)	(31.1)	(51.0)	(79.9)	(114.1)	(146.1)	(172.0)	(192.4)	(210.1)	(226.6)
Sales and Marketing per Average Analog Subscriber	(\$52.50)	(\$55.13)	(\$57.33)	(\$59.62)	(\$62.01)	(\$64.49)	(\$66.42)	(\$67.75)	(\$69.11)	(\$70.49)
Product Development	(17.0)	(24.4)	(35.5)	(52.2)	(69.2)	(82.1)	(88.6)	(91.1)	(91.1)	(89.6)
General and Administrative	(20.1)	(24.1)	(27.0)	(29.7)	(32.7)	(35.9)	(38.4)	(40.7)	(43.2)	(45.8)
Total	(54.4)	(79.6)	(113.5)	(161.7)	(216.0)	(264.1)	(299.1)	(324.3)	(344.3)	(362.0)
EBITDA	(8.5)	1.6	32.9	88.6	150.0	241.1	321.3	404.7	475.3	554.2
% Margin	-5.0%	0.6%	7.4%	12.7%	15.2%	19.1%	21.8%	24.4%	26.1%	27.8%
% Change			1951.5%	169.7%	69.3%	60.7%	33.3%	25.9%	17.4%	16.6%
Depreciation and Amortization										
	(11.8)	(19.9)	(32.2)	(47.2)	(55.7)	(62.8)	(68.5)	(73.3)	(77.2)	(80.7)
Operating Income	(20.2)	(18.3)	0.6	41.4	94.3	178.3	252.8	331.4	398.0	473.6
% Margin	-11.9%	-6.7%	0.1%	6.0%	9.5%	14.1%	17.1%	20.0%	21.9%	23.8%
% Change				6628.3%	127.7%	89.1%	41.8%	31.1%	20.1%	19.0%
Net Interest Expense										
	(5.4)	(9.3)	(13.0)	(12.1)	(5.8)	5.3	18.8	37.4	60.6	89.1
Pretax Income	(25.6)	(27.5)	(12.4)	29.3	88.4	183.5	271.7	368.9	458.7	562.7
% Margin	-15.1%	-10.2%	-2.8%	4.2%	8.9%	14.5%	18.4%	22.3%	25.2%	28.3%
% Change					201.5%	107.6%	48.0%	35.8%	24.3%	22.7%

Source: Credit Lyonnais Securities estimates

**Exhibit 112: AOL Japan Margin Analysis**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Gross Margin	27.0%	30.0%	33.0%	36.0%	37.0%	40.0%	42.0%	44.0%	45.0%	46.0%
Operating Costs as a % of Revenues										
Sales and Marketing	10.2%	11.5%	11.5%	11.5%	11.5%	11.6%	11.6%	11.6%	11.5%	11.4%
Product Development	10.0%	9.0%	8.0%	7.5%	7.0%	6.5%	6.0%	5.5%	5.0%	4.5%
General and Administrative	11.8%	8.9%	6.1%	4.3%	3.3%	2.8%	2.6%	2.5%	2.4%	2.3%
Total	32.0%	29.4%	25.6%	23.3%	21.8%	20.9%	20.2%	19.6%	18.9%	18.2%
EBITDA Margin	-5.0%	0.6%	7.4%	12.7%	15.2%	19.1%	21.8%	24.4%	26.1%	27.8%

Source: Credit Lyonnais Securities estimates

Exhibit 113: AOL Japan Cash Flow Projections

Pretax Income	(25.6)	(27.5)	(12.4)	29.3	88.4	183.5	271.7	368.9	458.7	562.7
Depreciation and Amortization	11.8	19.9	32.2	47.2	55.7	62.8	68.5	73.3	77.2	80.7
After-Tax Cash Flow	(13.9)	(7.7)	19.9	76.5	144.2	246.3	340.2	442.1	535.9	643.4
Capital Spending	(25.5)	(40.6)	(66.5)	(65.0)	(66.3)	(67.6)	(69.0)	(70.4)	(71.8)	(73.2)
Free Cash Flow	(39.4)	(48.3)	(46.7)	11.5	77.9	178.7	271.2	371.8	464.1	570.2
Net Debt:										
Beginning	(28.2)	(67.6)	(115.8)	(162.5)	(151.0)	(73.1)	105.6	376.8	748.6	1,212.7
Ending	(67.6)	(115.8)	(162.5)	(151.0)	(73.1)	105.6	376.8	748.6	1,212.7	1,782.9
Average	(47.9)	(91.7)	(139.2)	(156.7)	(112.0)	16.2	241.2	562.7	980.7	1,497.8

Source: Credit Lyonnais Securities estimates

Exhibit 114: AOL Japan Depreciation Schedule

Beginning PP&E	27.8	46.4	75.4	123.1	157.3	184.3	205.8	223.4	237.9	250.2
Capital Spending	25.5	40.6	66.5	65.0	66.3	67.6	69.0	70.4	71.8	73.2
Acquired PP&E										
Depreciation	(11.8)	(19.9)	(32.2)	(47.2)	(55.7)	(62.8)	(68.5)	(73.3)	(77.2)	(80.7)

Source: Credit Lyonnais Securities estimates

**Exhibit 115: AOL Japan DCF Valuation**

	1999	2000E	2001E	2002E	2003E	2004E	2005E	2006E	2007E	2008E
Free Cash Flow	(39.4)	(48.3)	(46.7)	11.5	77.9	178.7	271.2	371.8	464.1	570.2
Add: After-Tax Interest (0 if Net Cash)	5.4	9.3	13.0	12.1	5.8	0.0	0.0	0.0	0.0	0.0
Free Cash Flow to Firm (FCFF)	(34.0)	(39.0)	(33.7)	23.6	83.7	178.7	271.2	371.8	464.1	570.2
% Change		14.7%	-13.7%	-170.1%	254.5%	113.5%	51.8%	37.1%	24.8%	22.8%
Assumptions:										
Terminal Growth Rate	11.5%									
WACC	15.1%									
Terminal	27.8x									
Years to Discount	0	1	2	3	4	5	6	7	8	9
		0	1	2	3	4	5	6	7	8
			0	1	2	3	4	5	6	7
				0	1	2	3	4	5	6
					0	1	2	3	4	5
						0	1	2	3	4
							0	1	2	3
								0	1	2
									0	1
										0
Present Value of FCFF	(34.0)	(33.9)	(25.4)	15.5	47.7	88.5	116.7	138.9	150.7	160.8
		(39.0)	(29.2)	17.8	54.9	101.8	134.3	159.9	173.5	185.1
			(33.7)	20.5	63.2	117.2	154.5	184.0	199.6	213.1
				23.6	72.7	134.9	177.9	211.8	229.8	245.2
					83.7	155.3	204.7	243.8	264.5	282.3
						178.7	235.6	280.6	304.4	324.9
							271.2	323.0	350.4	373.9
								371.8	403.3	430.4
									464.1	495.4
										570.2
Sum of Present Value of FCFF Stream	625.5	759.1	918.6	1,096.0	1,234.3	1,324.3	1,318.5	1,205.4	959.5	570.2
Present Value of Terminal Value	4,985.0	5,737.6	6,603.9	7,600.9	8,748.4	10,069.3	11,589.5	13,339.2	15,353.1	17,671.0
Ending Net Cash (Debt)	(67.6)	(115.8)	(162.5)	(151.0)	(73.1)	105.6	376.8	748.6	1,212.7	1,782.9
Net Present Value	5,542.9	6,366.9	7,360.0	8,545.9	9,909.6	11,499.1	13,284.8	15,293.2	17,525.3	20,024.1
% Change		15.1%	15.3%	16.1%	16.0%	16.0%	15.5%	15.1%	14.6%	14.3%

Source: Credit Lyonnais Securities estimates



Australia

Exhibit 116: AOL Australia Subscription Revenue Projections

(millions)	1999	2000E	2001E	2002E	2003E	2004E	2005E	2006E	2007E	2008E
Australian Households (mm)	7.135	7.220	7.307	7.395	7.483	7.573	7.664	7.756	7.849	7.943
% PC Owners	50.0%	55.0%	57.0%	59.0%	60.5%	62.0%	63.0%	64.0%	64.5%	65.0%
% Online	22.0%	30.0%	37.0%	45.0%	50.0%	55.0%	58.0%	60.0%	62.0%	63.0%
PC Owners	3.567	3.971	4.165	4.363	4.527	4.695	4.828	4.964	5.063	5.163
Online	1.570	2.166	2.704	3.328	3.742	4.165	4.445	4.654	4.866	5.004
Subscribers (millions):										
Beginning	0.000	0.190	0.440	0.690	0.940	1.190	1.390	1.490	1.590	1.690
Additions	0.190	0.250	0.250	0.250	0.250	0.200	0.100	0.100	0.100	0.100
Ending	0.190	0.440	0.690	0.940	1.190	1.390	1.490	1.590	1.690	1.790
Average	0.095	0.315	0.565	0.815	1.065	1.290	1.440	1.540	1.640	1.740
Subscription Rates:										
3-Hour Plan	\$6.30	\$5.99	\$5.69	\$5.40	\$5.02	\$4.67	\$4.34	\$4.04	\$3.76	\$3.49
15-Hour Plan	\$19.00	\$18.05	\$17.15	\$16.29	\$15.48	\$14.70	\$13.67	\$12.72	\$11.83	\$11.00
Estimated Subscriber Weightings:										
3-Hour Plan	40.0%	35.0%	33.0%	31.0%	29.0%	27.0%	24.0%	21.0%	18.0%	15.0%
15-Hour Plan	60.0%	65.0%	67.0%	69.0%	71.0%	73.0%	76.0%	79.0%	82.0%	85.0%
Weighted Subscription Rate	\$13.92	\$13.83	\$13.37	\$12.91	\$12.44	\$11.99	\$11.43	\$10.89	\$10.37	\$9.87
Total AOL Subscription Revenues	15.9	52.3	90.6	126.3	159.0	185.7	197.6	201.3	204.1	206.1
% Change		229.4%	73.4%	39.4%	25.9%	16.7%	6.4%	1.9%	1.4%	1.0%
Additional Usage Fees:										
Usage:										
Average Subscribers	0.095	0.315	0.565	0.815	1.065	1.290	1.440	1.540	1.640	1.740
x Average Over-Usage Time	1.500	1.575	1.654	1.736	1.823	1.914	2.010	2.111	2.216	2.327
x Hourly Charge	\$2.55	\$2.47	\$2.40	\$2.33	\$2.26	\$2.19	\$2.12	\$2.06	\$2.00	\$1.94
x 12 = Additional Usage Fees	4.4	14.7	26.9	39.5	52.6	64.9	73.8	80.4	87.2	94.2
% Change		237.7%	82.7%	46.9%	33.1%	23.4%	13.7%	8.9%	8.5%	8.1%
Total Other AOL Australia Subscription Revenues	20.2	67.0	117.5	165.8	211.6	250.6	271.4	281.7	291.3	300.3
% Change		231.2%	75.4%	41.1%	27.6%	18.4%	8.3%	3.8%	3.4%	3.1%

Source: Credit Lyonnais Securities estimates

Exhibit 117: AOL Australia Advertising and E-Commerce Revenue Projections

Advertising and E-Commerce Fees:										
Advertising:										
Average Subscribers	0.095	0.315	0.565	0.815	1.065	1.290	1.440	1.540	1.640	1.740
x Average Monthly User Sessions per Average Subscriber	15.0	16.2	17.5	18.9	20.4	21.6	22.9	24.3	25.8	27.3
x Average Page Views per Session	10.0	11.0	12.1	13.3	14.6	15.7	16.4	17.1	17.8	18.5
x 12 = Total Page Views in AOL Subscription Areas	171.0	673.6	1,435.3	2,459.7	3,818.5	5,245.9	6,517.6	7,683.9	9,020.8	10,550.9
Non-Subscription Areas										
Aggregate Average Monthly Unique Visitors	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
x Average Monthly User Sessions per Unique Visitor	3.0	3.2	3.4	3.7	3.8	4.0	4.2	4.4	4.7	4.9
x Average Page Views per Session	10.0	10.8	11.3	11.9	12.5	13.0	13.5	14.1	14.6	15.2
x 12 = Total Page Views in Non-Subscriber Areas	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total AOL Page Views	171.0	673.6	1,435.3	2,459.7	3,818.5	5,245.9	6,517.6	7,683.9	9,020.8	10,550.9
x Advertising Revenues Per Page View (+10% Yr)	\$5.00	\$6.00	\$6.90	\$7.94	\$9.13	\$10.49	\$12.07	\$13.27	\$14.34	\$15.48
Total Advertising Revenues	0.9	4.0	9.9	19.5	34.8	55.1	78.7	102.0	129.3	163.4
% Change		372.7%	145.0%	97.1%	78.5%	58.0%	42.9%	29.7%	26.8%	26.3%
E-Commerce Fees:										
Commerce Site Page Views—% of Total Annual Page Views	1.0%	1.2%	1.3%	1.4%	1.5%	1.5%	1.6%	1.6%	1.7%	1.7%
Page Views on Commerce Sites	1.7	8.1	18.7	34.4	55.4	78.7	101.0	122.9	148.8	179.4
x Take Rate (%) Weighted by Quantity Purchased per Purchase	5.5%	6.0%	7.0%	8.0%	9.0%	10.0%	11.0%	12.0%	13.0%	14.0%
= Total E-Commerce Purchases	0.1	0.5	1.3	2.8	5.0	7.9	11.1	14.8	19.3	25.1
x Average Purchase/Download Price	\$35.00	\$36.40	\$37.49	\$38.62	\$39.78	\$40.97	\$42.20	\$43.46	\$44.77	\$46.11
= Total E-Commerce Purchases (\$ millions)	3.3	17.7	49.0	106.4	198.2	322.4	468.9	641.2	866.2	1,157.9
x AOL Commissions (%)	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
= AOL E-Commerce Fees	0.3	1.8	4.9	10.6	19.8	32.2	46.9	64.1	86.6	115.8
% Change		436.3%	177.4%	117.2%	86.3%	62.6%	45.5%	36.7%	35.1%	33.7%
Total Advertising and E-Commerce Fees	1.2	5.8	14.8	30.2	54.7	87.3	125.5	166.1	216.0	279.2
% Change		390.4%	154.9%	103.7%	81.3%	59.7%	43.8%	32.3%	30.0%	29.3%

Source: Credit Lyonnais Securities estimates

**Exhibit 118: AOL Australia Income Statement Projections**

	1999	2000E	2001E	2002E	2003E	2004E	2005E	2006E	2007E	2008E
Revenues:										
Subscription	20.2	67.0	117.5	165.8	211.6	250.6	271.4	281.7	291.3	300.3
Advertising, E-Commerce Fees and Other Revenues										
Advertising	0.9	4.0	9.9	19.5	34.8	55.1	78.7	102.0	129.3	163.4
E-Commerce	0.3	1.8	4.9	10.6	19.8	32.2	46.9	64.1	86.6	115.8
Total Advertising and E-Commerce Fees	1.2	5.8	14.8	30.2	54.7	87.3	125.5	166.1	216.0	279.2
Total Consolidated AOL Australia Revenues	21.4	72.8	132.3	196.0	266.3	337.8	396.9	447.8	507.3	579.5
% Change		240.0%	81.8%	48.1%	35.9%	26.9%	17.5%	12.8%	13.3%	14.2%
Costs of Revenues	(15.0)	(48.8)	(84.7)	(119.6)	(157.1)	(192.6)	(218.3)	(241.8)	(268.9)	(301.3)
Gross Profit	6.4	24.0	47.6	76.4	109.2	145.3	178.6	206.0	238.4	278.2
% Margin	30.0%	33.0%	36.0%	39.0%	41.0%	43.0%	45.0%	46.0%	47.0%	48.0%
% Change		274.0%	98.3%	60.5%	42.9%	33.1%	22.9%	15.3%	15.7%	16.7%
Other Operating Costs:										
Sales and Marketing	(4.3)	(13.5)	(22.9)	(33.4)	(41.5)	(48.8)	(52.8)	(54.8)	(56.6)	(58.2)
Sales and Marketing per Average Analog Subscriber	(\$45.00)	(\$42.75)	(\$40.61)	(\$41.02)	(\$38.97)	(\$37.80)	(\$36.66)	(\$35.56)	(\$34.50)	(\$33.46)
Product Development	(2.8)	(8.7)	(14.6)	(20.6)	(26.6)	(32.1)	(35.7)	(38.1)	(40.6)	(43.5)
General and Administrative	(3.2)	(3.9)	(4.3)	(4.7)	(5.2)	(5.7)	(6.1)	(6.5)	(6.9)	(7.3)
Total	(10.3)	(26.1)	(41.8)	(58.8)	(73.4)	(86.6)	(94.7)	(99.4)	(104.1)	(109.0)
EBITDA	(3.8)	(2.0)	5.8	17.7	35.8	58.7	83.9	106.6	134.3	169.1
% Margin	-18.0%	-2.8%	4.4%	9.0%	13.5%	17.4%	21.1%	23.8%	26.5%	29.2%
% Change				203.9%	102.7%	63.7%	43.1%	27.0%	26.0%	25.9%
Depreciation and Amortization	(4.3)	(5.8)	(9.5)	(15.3)	(20.0)	(18.9)	(18.7)	(18.7)	(18.7)	(18.7)
Operating Income	(8.1)	(7.8)	(3.7)	2.3	15.8	39.7	65.2	87.9	115.6	150.4
% Margin	-38.0%	-10.7%	-2.8%	1.2%	5.9%	11.8%	16.4%	19.6%	22.8%	26.0%
% Change					578.3%	151.7%	64.2%	34.8%	31.5%	30.1%
Net Interest Expense	1.2	0.5	(0.3)	(1.3)	0.1	2.4	6.2	11.3	18.2	27.3
Pretax Income	(7.0)	(7.3)	(4.0)	1.0	15.9	42.1	71.4	99.2	133.8	177.7
% Margin	-32.6%	-10.0%	-3.0%	0.5%	6.0%	12.5%	18.0%	22.2%	26.4%	30.7%
% Change					1515.7%	165.2%	69.4%	39.0%	34.8%	32.8%

Source: Credit Lyonnais Securities estimates

Exhibit 119: AOL Australia Margin Analysis

	1999	2000E	2001E	2002E	2003E	2004E	2005E	2006E	2007E	2008E
Gross Margin	30.0%	33.0%	36.0%	39.0%	41.0%	43.0%	45.0%	46.0%	47.0%	48.0%
Operating Costs as a % of Revenues										
Sales and Marketing	20.0%	18.5%	17.3%	17.1%	15.6%	14.4%	13.3%	12.2%	11.2%	10.0%
Product Development	13.0%	12.0%	11.0%	10.5%	10.0%	9.5%	9.0%	8.5%	8.0%	7.5%
General and Administrative	15.0%	5.3%	3.3%	2.4%	2.0%	1.7%	1.5%	1.5%	1.4%	1.3%
Total	48.0%	35.8%	31.6%	30.0%	27.5%	25.6%	23.9%	22.2%	20.5%	18.8%
EBITDA Margin	-18.0%	-2.8%	4.4%	9.0%	13.5%	17.4%	21.1%	23.8%	26.5%	29.2%

Source: Credit Lyonnais Securities estimates

Exhibit 120: AOL Australia Cash Flow Projections

	1999	2000E	2001E	2002E	2003E	2004E	2005E	2006E	2007E	2008E
Pretax Income	(7.0)	(7.3)	(4.0)	1.0	15.9	42.1	71.4	99.2	133.8	177.7
Depreciation and Amortization	4.3	5.8	9.5	15.3	20.0	18.9	18.7	18.7	18.7	18.7
After-Tax Cash Flow	(2.7)	(1.5)	5.5	16.3	35.9	61.1	90.1	118.0	152.5	196.4
Capital Spending	(4.3)	(10.9)	(19.8)	(29.4)	(17.0)	(15.0)	(15.0)	(15.0)	(15.0)	(15.0)
Free Cash Flow	(7.0)	(12.4)	(14.3)	(13.1)	18.9	46.1	75.1	103.0	137.5	181.4
Net Debt:										
Beginning	30.0	23.0	10.6	(3.7)	(16.8)	2.1	48.2	123.3	226.3	363.8
Ending	23.0	10.6	(3.7)	(16.8)	2.1	48.2	123.3	226.3	363.8	545.2
Average	26.5	16.8	3.4	(10.3)	(7.3)	25.2	85.8	174.8	295.1	454.5

Source: Credit Lyonnais Securities estimates

**Exhibit 121: AOL Australia Depreciation Schedule**

(Millions)	1998E	1999E	2000E	2001E	2002E	2003E	2004E	2005E	2006E	2007E	2008E
Beginning PP&E	15.0	15.5	22.6	36.8	57.0	59.7	59.8	59.9	59.9	59.9	59.9
Capital Spending	4.3	10.9	19.8	29.4	17.0	15.0	15.0	15.0	15.0	15.0	15.0
Acquired PP&E											
Depreciation	(4.3)	(5.8)	(9.5)	(15.3)	(20.0)	(18.9)	(18.7)	(18.7)	(18.7)	(18.7)	(18.7)

Source: Credit Lyonnais Securities estimates

Exhibit 122: AOL Australia DCF Valuation

	1998E	1999E	2000E	2001E	2002E	2003E	2004E	2005E	2006E	2007E	2008E
Free Cash Flow	(7.0)	(12.4)	(14.3)	(13.1)	18.9	46.1	75.1	103.0	137.5	181.4	
Add: After-Tax Interest (0 if Net Cash)	0.0	0.0	0.0	1.3	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow to Firm (FCFF)	(7.0)	(12.4)	(14.3)	(11.7)	18.8	46.1	75.1	103.0	137.5	181.4	
% Change		78.0%	15.4%	-18.2%	-260.7%	144.7%	63.0%	37.1%	33.6%	31.9%	
Assumptions:											
Terminal Growth Rate	11.5%										
WACC	15.1%										
Terminal	27.8x										
Years to Discount	0	1	2	3	4	5	6	7	8	9	
		0	1	2	3	4	5	6	7	8	
			0	1	2	3	4	5	6	7	
				0	1	2	3	4	5	6	
					0	1	2	3	4	5	
						0	1	2	3	4	
							0	1	2	3	
								0	1	2	
									0	1	
										0	
Present Value of FCFF	(7.0)	(10.8)	(10.8)	(7.7)	10.7	22.8	32.3	38.5	44.7	51.2	
		(12.4)	(12.4)	(8.8)	12.4	26.3	37.2	44.3	51.4	58.9	
			(14.3)	(10.2)	14.2	30.2	42.8	51.0	59.2	67.8	
				(11.7)	16.4	34.8	49.3	58.7	68.1	78.0	
					18.8	40.0	56.7	67.5	78.4	89.8	
						46.1	65.3	77.7	90.2	103.4	
							75.1	89.5	103.8	119.0	
								103.0	119.5	136.9	
									137.5	157.6	
										181.4	
Sum of Present Value of FCFF Stream	163.9	196.7	240.6	293.5	351.3	382.6	387.4	359.4	295.2	181.4	
Present Value of Terminal Value	1,586.0	1,825.5	2,101.1	2,418.3	2,783.4	3,203.6	3,687.3	4,244.0	4,884.8	5,622.2	
Ending Net Cash (Debt)	23.0	10.6	(3.7)	(16.8)	2.1	48.2	123.3	226.3	363.8	545.2	
Net Present Value	1,772.9	2,032.7	2,338.0	2,695.0	3,136.8	3,634.5	4,198.0	4,829.7	5,543.7	6,348.9	
% Change		14.7%	15.0%	15.3%	16.4%	15.9%	15.5%	15.0%	14.8%	14.5%	

Source: Credit Lyonnais Securities estimates

AOL Latin America

AOL Latin America (AOLA) was formed as a joint venture between AOL and The Cisneros Group in December 1998. The Cisneros Group has committed to contributing an aggregate \$100 million in funding, while AOL has granted AOL Latin America licensing rights to offer AOL-branded online services through the PC. The license also covers TV and wireless delivery, when available. These licenses last until December 15, 2003 or until either owner reduces its ownership interest below 20%. The licenses are non-exclusive subject to AOLA's option to pay AOL a license fee equal to its pro rata share of development costs. Non-AOL branded services such as MovieFone, Spinner, and DigitalCity are not included in the license.

Latin America is one of the fastest growing online regions in the world. The online population is expected to compound at 19% over the 1998-2003 period, according to Jupiter Communications. Jupiter also predicts that the country will have 20 million people with Web access by 2003. Dataquest is less optimistic (11 million by 2003). We present



Computer Economics' Latin American Internet user projections, falling between those of Jupiter and Dataquest, in the following exhibit.

Exhibit 123: Latin American Internet Population

	Online Population 1999	Overall Population 1999	Online Population 2002
Argentina	238	36,738	435
Bolivia	10	7,983	23
Brazil	1,785	171,853	7,250
Caribbean	35	15,633	207
Chile	235	14,974	430
Colombia	125	39,309	195
Costa Rica	55	3,674	86
Ecuador	10	12,562	17
Mexico	1,275	100,294	5,150
Paraguay	3	5,434	8
Peru	67	26,625	87
Uruguay	14	33,089	25
Venezuela	47	23,203	87
Total Latin America	3,899	445,957	14,002

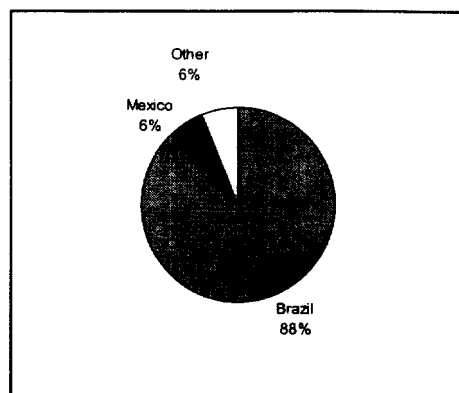
Source: Computer Economics

The challenges facing Internet service and content providers in Latin America include the following:

1. PC penetration in Latin America is only 16% (compared to over 60% in the U.S.) and in the single digits in certain countries such as Peru (7%) due to high costs and poor infrastructure. Although there is an emerging middle class, a large portion of Latin America's population lives below the poverty line, while a small minority upper class controls the bulk of the continent's economic power. For example, in Brazil the richest 20% of the people control roughly 60% of the wealth. In this group of roughly 100 million people, 40% already have a PC in the home. Hardware pricing is declining, however, with \$600 PCs hitting the market. To partially compensate, several countries (e.g., Peru, Argentina, Chile) are establishing public Internet access booths and cybercafés dedicated to Internet access for \$1–\$5 per hour.
2. Infrastructure issues (logistics, customs, currency) remain serious. There are about 10 telephone access lines for each 100 people in Brazil, versus 65 in the U.S. Tariffs in Brazil have been unstable over the past five years, with annual price increases ranging from 10% to as high as 40%. As much of the commerce will most likely come from the U.S., this could suppress demand. Credit cards, taken for granted in the U.S., have yet to come into mass acceptance in Latin America, where checks are still widely used, for reasons including lack of faith in the banking system and few issuers. American Express, however, does report that credit card penetration is increasing (14% from 1997 to 1998).
3. Local content has yet to develop. According to estimates, 80%–90% of the content in Latin America will be derived from outside markets while most consumers prefer local content.

Jupiter Communications expects Latin American spending online to surge to \$8.3 billion by 2004, from an estimated \$194 million in 1999. Brazil is likely to be the first Latin American nation to jump start e-commerce activity. According the Boston Consulting Group, 88% of Latin America-based sales are made in Brazil. Forrester Research estimates that Brazil accounted for nearly 60% of all Latin American online advertising expenditures in 1999. (See Exhibits 124–126 on the following page).

Exhibit 124: Latin American E-Commerce Spending



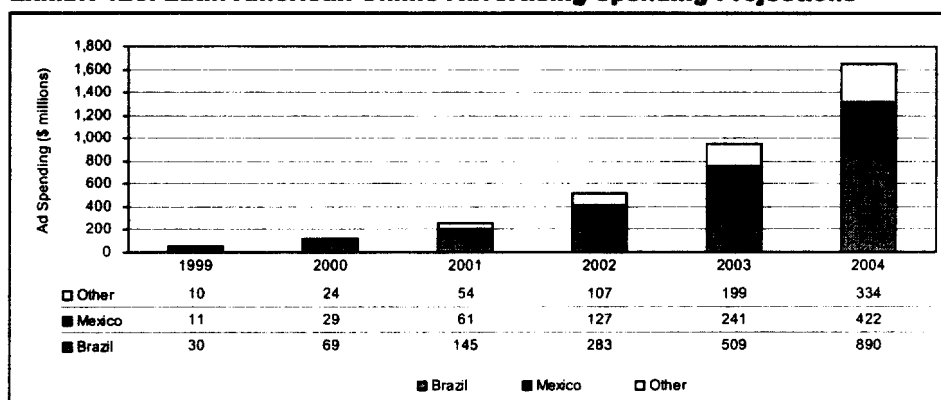
Source: Computer Economics

Exhibit 125: Worldwide Online Advertising Spending Projections

	1999	2000	2001	2002	2003	2004	2005
North America	2,831	5,410	8,773	12,740	17,482	22,589	51%
Europe	286	621	1,217	2,169	3,589	5,480	81%
Asia-Pacific	166	346	691	1,235	2,070	3,322	82%
Latin America	51	121	259	517	949	1,647	100%
Total Worldwide	3,336	6,502	10,948	16,675	24,113	33,075	58%

Source: Forrester Research

Exhibit 126: Latin American Online Advertising Spending Projections



Source: Computer Economics

Boding well for AOL is typical Latin American utilization of the Internet, which attaches greater importance to communications, as opposed to the heavy information-retrieval/entertainment bent in the U.S. The attraction of being part of AOL's global community and the ability to use AOL's branded communications tools such as Instant Messenger and ICQ should generate demand. According to an October 1999 *Business Week* article, Latin American users average 8.2 hours of online time a week, compared to 7.1 hours in the U.S.

Is brand more or less important in Latin America? One common school of thought is that in a situation where information is not plentiful, new users of any consumer product will seek those brands most familiar to them. The other is that as a new medium, the importance of an online brand has been overestimated, since consumers will seek to maximize the



benefits of speed, ubiquity, connectivity, and unlimited space that the Internet provides. In addition, considering the endless functions the online media perform, forming a broad brand would be a considerable challenge, in our view. We argue, however, that AOL is closest to a universal online brand.

Brazil

The country is the eighth-largest industrial economy in the world. Brazil's population of 170 million makes up half of the Latin American total. Dataquest figures show Brazil leading Latin America in terms of PC units purchased, with about 1.8 million, slightly ahead of Mexico.

Brazilian demographic composition is the most ethnically diverse in Latin America, including the largest Japanese population in the world outside of Japan. Despite the diversity, Brazilians are wholeheartedly nationalistic. The use of the Portuguese language is also unique in Latin America. These factors present the need for an ISP to convey Brazil-specific services and content.

Approximately 2.7 million Brazilians currently use the Internet, according to the IDC, served by 200 ISPs (based on Dataquest figures). We expect this fragmented market to rationalize quickly and point to several competitors as the most likely to accrue market share over the next 3–5 years:

- **MSN/Globo Cabo:** Microsoft invested \$126 million for an 11.5% stake in Globo in 1999. The two plan to offer a cable modem service (called Virtua) in the near future. MSN/Globo Cabo will promote a variety of services including content creation, broadband networks, software and Internet technology, and a joint portal.
- **Universo Online (UOL):** Backed by Brazil's largest newspaper (Folha de São Paulo, which is the majority owner of UOL, and Abril), UOL has added roughly 600,000 subscribers in its three years of operating in Brazil. UOL claims that 80% of Brazilian Internet users pass through its sites, generating 600 million page views a month. UOL also launched five Internet ports in Latin America and the U.S. in 1999.
- **Terra Networks:** The Internet company subsidiary of Telefónica S.A., Terra Networks entered Brazil in June of 1999 with its acquisition of local ISP and portal operator ZAZ, which is changing its name to Terra. Terra has approximately 380,000 Brazilian subscribers signed up to date, making the second-largest ISP in the country. However, Terra's biggest impact on the Brazilian market may be its recent decision to introduce a free Internet-access service, making it the first major ISP to do so.
- **StarMedia:** Formed in 1996 as a way for Latin Americans to "work out their differences online," StarMedia offers a variety of content channels, community features, search capabilities, online shopping and Internet access services to Latin Americans and other Spanish- and Portuguese-speaking audiences. StarMedia has established offices in 18 countries and has rapidly built its user base—averaging over 250 million page views a month. We attribute StarMedia's success to its focus on solely serving the interests and needs of Latin American and other Spanish- and Portuguese-speaking Internet users. We believe StarMedia has built a credible brand on this focus.

Argentina

Argentina has recently seen a wave of Internet start-ups. In several ways, we believe this nation offers a more promising environment than Brazil for the development of an Internet services marketplace:



- Argentina has the highest GDP per capita in Latin America;
- Its telecommunications infrastructure is substantially more modern than Brazil's;
- Social indicators are on par with European countries in several respects;
- Argentina has relatively active media, advertising, and public relations industries that should provide fertile training grounds to staff Internet companies; and
- Cable penetration is among the highest in the world at approximately 60%.

There are currently approximately 400,000 Internet users in Argentina, or 1% of the total population.

A recent study by Boston Consulting Group (BCG) estimates that 10%–15% of the Argentine user base has used the Internet to make a purchase, contributing to an estimated \$2 million e-commerce market. BCG projects that Argentine e-commerce market will increase 200%–300% per year over the next few years. As is the case throughout Latin America, commerce has been constrained by Argentina's cash-heavy economy, created by its past history of hyperinflation and its underdeveloped banking system.

**Exhibit 127: AOL Latin America Subscription Revenue Projections**

(\$ millions)	1999	2000E	2001E	2002E	2003E	2004E	2005E	2006E	2007E	2008E
Aggregate Population (Assume 1.8% Annual Growth):										
Brazil	171.9	174.9	178.1	181.3	184.6	187.9	191.3	194.7	198.2	201.8
Mexico	100.3	102.1	103.9	105.8	107.7	109.7	111.6	113.6	115.7	117.8
Argentina	36.7	37.4	38.1	38.8	39.5	40.2	40.9	41.6	42.4	43.1
Colombia	39.3	40.0	40.7	41.5	42.2	43.0	43.8	44.5	45.3	46.2
Chile	15.0	15.2	15.5	15.8	16.1	16.4	16.7	17.0	17.3	17.6
Venezuela	23.2	23.6	24.0	24.5	24.9	25.4	25.8	26.3	26.8	27.2
Peru	26.6	27.1	27.6	28.1	28.6	29.1	29.6	30.2	30.7	31.3
Other	33.0	33.6	34.2	34.8	35.4	36.1	36.7	37.4	38.1	38.8
Total Latin American Population	446.0	454.0	462.2	470.5	479.0	487.6	496.4	505.3	514.4	523.7
Core Market Population (e.g., Brazil, Mexico, Argentina)	308.9	314.4	320.1	325.9	331.7	337.7	343.8	350.0	356.3	362.7
Average Household Size	3.5	3.5	3.4	3.4	3.3	3.2	3.2	3.1	3.0	3.0
Households										
Core Markets	127.4	129.7	134.8	140.0	145.4	151.0	156.9	163.0	169.3	175.9
Other Markets	39.2	39.9	41.4	43.0	44.7	46.4	48.2	50.1	52.0	54.1
Total Households	166.6	169.6	176.2	183.0	190.1	197.5	205.1	213.1	221.4	229.9
Total PC Units	5.0	8.3	21.1	36.6	51.3	67.1	82.1	95.9	110.7	126.5
PC Household Penetration	3.0%	4.9%	12.0%	20.0%	27.0%	34.0%	40.0%	45.0%	50.0%	55.0%
Online Households	1.1	2.9	8.7	16.8	25.7	35.8	45.1	54.7	64.2	74.6
Online Household Penetration of PC Households	22.0%	35.0%	41.0%	46.0%	50.0%	53.0%	55.0%	57.0%	58.0%	59.0%
AOL Subscribers (millions):										
Beginning	0.000	0.120	0.620	1.620	3.620	6.620	9.620	12.620	15.620	17.620
Additions	0.120	0.500	1.000	2.000	3.000	3.000	3.000	3.000	2.000	2.000
Ending	0.120	0.620	1.620	3.620	6.620	9.620	12.620	15.620	17.620	19.620
Average	0.060	0.370	1.120	2.820	5.120	8.120	11.120	14.120	16.620	18.620
Pricing										
Unlimited	\$19.66	\$18.88	\$17.75	\$16.68	\$15.68	\$14.58	\$13.56	\$12.48	\$11.48	\$10.33
10 Hours + R\$1.95 per Additional Hour	\$8.40	\$8.40	\$7.98	\$7.50	\$7.05	\$6.56	\$6.10	\$5.61	\$5.16	\$4.64
5 Hours + R\$2.95 per Additional Hour	\$5.59	\$5.31	\$5.04	\$4.74	\$4.46	\$4.15	\$3.86	\$3.55	\$3.26	\$2.94
% Change		-5.0%	-5.0%	-6.0%	-6.0%	-7.0%	-7.0%	-8.0%	-8.0%	-10.0%
Subscriber Mix:										
Unlimited	50.0%	50.0%	51.0%	52.0%	53.0%	54.0%	55.0%	56.0%	57.0%	58.0%
10 Hours + R\$1.95 per Additional Hour	25.0%	25.0%	26.0%	27.0%	28.0%	29.0%	30.0%	31.0%	32.0%	33.0%
5 Hours + R\$2.95 per Additional Hour	25.0%	25.0%	23.0%	21.0%	19.0%	17.0%	15.0%	13.0%	11.0%	9.0%
Weighted Average Subscription Rate	\$13.33	\$12.77	\$12.29	\$11.70	\$11.13	\$10.48	\$9.87	\$9.19	\$8.55	\$7.79
AOL Subscription Revenues from Stated Plan	1.2	56.7	165.1	367.7	683.9	1,021.2	1,316.6	1,556.7	1,705.9	1,740.4
Additional Hour per Month per Average Limited-Plan Subscriber	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.5	0.5	0.6
Average per Hour Charge	\$7.00	\$7.00	\$6.65	\$6.25	\$5.88	\$5.46	\$5.08	\$4.68	\$4.30	\$3.87
Additional Usage Charge	0.1	4.7	14.2	33.0	64.1	100.0	134.5	165.9	189.7	201.7
AOL Subscription Revenues	1.3	61.3	179.3	400.7	748.0	1,121.2	1,451.1	1,722.6	1,895.5	1,942.1
CompuServe Subscribers:										
Beginning	0.008	0.007	0.006	0.005	0.005	0.004	0.004	0.004	0.003	0.003
Additions	(0.001)	(0.001)	(0.001)	(0.001)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Ending	0.007	0.006	0.005	0.005	0.004	0.004	0.004	0.003	0.003	0.003
Average	0.008	0.007	0.006	0.005	0.005	0.004	0.004	0.003	0.003	0.003
x Average Monthly Subscription Rate	\$31.31	\$15.00	\$14.25	\$13.40	\$12.59	\$11.71	\$10.89	\$10.02	\$9.22	\$8.30
% Change		-4.0%	-5.0%	-6.0%	-6.0%	-7.0%	-7.0%	-8.0%	-8.0%	-10.0%
Total CompuServe Subscription Revenues	1.6	1.2	1.0	0.8	0.7	0.6	0.5	0.4	0.3	0.3
% Change		-28.8%	-16.7%	-15.4%	-15.4%	-16.3%	-16.3%	-17.2%	-17.2%	-19.0%
Total AOL Subscription Revenues	2.9	62.5	180.3	401.5	748.7	1,121.8	1,451.6	1,723.0	1,895.9	1,942.4
% Change		2027.9%	188.4%	122.7%	86.5%	49.8%	29.4%	18.7%	10.0%	0.0

Source: Credit Lyonnais Securities estimates

**Exhibit 128: AOL Latin America Advertising and E-Commerce Revenue Projections**

	1999E	2000E	2001E	2002E	2003E	2004E	2005E	2006E	2007E	2008E
Advertising and E-Commerce Fees:										
Advertising:										
Average Subscribers	0.060	0.370	1.120	2.620	5.120	8.120	11.120	14.120	16.620	18.620
x Average Monthly User Sessions per Average Subscriber	10.0	12.0	13.2	14.5	15.7	16.9	18.3	19.8	21.3	23.0
x Average Page Views per Session	7.5	8.0	8.8	9.7	10.6	11.4	12.0	12.4	12.9	13.5
x 12 = Total Page Views in AOL Subscription Areas	6.8	426.2	1,561.2	4,419.0	10,259.1	18,802.0	29,198.8	41,644.0	55,056.1	69,280.5
Non-Subscription Areas										
Country Portals										
Beginning	0.0	0.0	2.0	4.0	5.0	6.0	7.0	7.0	7.0	7.0
Launches	1.0	2.0	2.0	1.0	1.0	1.0	0.0	0.0	0.0	0.0
Ending	1.0	2.0	4.0	5.0	6.0	7.0	7.0	7.0	7.0	7.0
Average	0.5	1.0	3.0	4.5	5.5	6.5	7.0	7.0	7.0	7.0
x Aggregate Average Monthly Unique Visitors per Average Count	0.3	0.3	1.0	1.5	1.8	2.0	2.2	2.4	2.7	2.9
x Average Monthly User Sessions per Unique Visitor	5.0	5.0	5.3	5.7	6.0	6.3	6.4	6.6	6.8	7.0
x Average Page Views per Session	4.0	4.0	6.0	6.3	6.6	6.8	7.1	7.4	7.7	8.0
x 12 = Total Page Views in Non-Country Portals	4.5	72.0	1,134.0	2,893.4	4,634.1	6,645.0	8,432.2	9,935.8	11,707.6	13,795.3
Average Regional Portal										
x Aggregate Average Monthly Unique Visitors	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
x Average Monthly User Sessions per Unique Visitor	0.5	0.5	1.2	1.4	1.7	2.0	2.3	2.6	2.9	3.2
x Average Page Views per Session	5.0	5.0	5.3	5.7	6.0	6.3	6.4	6.6	6.8	7.0
x 12 = Total Page Views in Non-Country Portals	4.0	4.0	5.0	5.5	5.8	6.0	6.2	6.5	6.8	7.0
x 12 = Total Page Views in Non-Country Portals	15.0	120.0	362.3	537.9	711.7	893.7	1,101.0	1,356.3	1,598.1	1,883.1
Other Brands:										
x Aggregate Average Monthly Unique Visitors	0.7	0.7	1.2	1.7	2.0	2.2	2.6	2.7	2.9	3.0
x Average Monthly User Sessions per Unique Visitor	3.0	3.0	4.0	4.4	4.8	5.0	5.1	5.3	5.5	5.6
x Average Page Views per Session	4.0	4.0	5.0	5.5	5.8	6.0	6.2	6.5	6.8	7.0
x 12 = Total Page Views in Non-Country Portals	12.6	100.8	288.0	493.7	643.8	808.5	996.0	1,120.2	1,260.0	1,417.2
Total Non-Subscription Page Views	32.1	292.8	1,784.3	3,925.0	5,989.6	8,347.2	10,529.2	12,412.4	14,585.7	17,095.6
Total AOL Page Views	38.9	719.0	3,345.4	8,344.0	16,248.7	27,149.2	39,728.0	54,056.3	69,621.8	86,376.1
x Advertising Revenues Per 1,000 Page Views (+10% Yr)	\$2.50	\$3.00	\$4.50	\$6.30	\$7.56	\$8.69	\$10.00	\$11.00	\$11.88	\$12.83
Total Advertising Revenues	0.1	2.2	15.1	52.6	122.8	238.0	397.2	594.5	827.0	1,108.0
% Change			597.9%	249.2%	133.7%	92.1%	68.3%	49.7%	39.1%	34.0%
E-Commerce Fees:										
Commerce Site Page Views—% of Total Annual Page Views	0.1%	0.3%	0.6%	1.1%	1.6%	2.1%	2.2%	2.3%	2.4%	2.5%
Page Views on Commerce Sites	0.0	1.8	18.4	87.6	251.9	556.6	854.2	1,216.3	1,636.1	2,116.2
x Take Rate (%) Weighted by Quantity Purchased per Purchase	0.0%	0.0%	1.0%	2.0%	3.0%	3.5%	4.0%	4.5%	5.0%	5.5%
= Total E-Commerce Purchases	0.0	0.0	0.2	1.8	7.6	19.5	34.2	54.7	81.8	116.4
x Average Purchase/Download Price	\$25.00	\$25.00	\$25.75	\$26.52	\$27.32	\$28.14	\$28.98	\$29.85	\$30.75	\$31.67
= Total E-Commerce Purchases (\$ millions)	0.0	0.0	4.7	46.5	206.4	548.1	990.2	1,633.8	2,515.3	3,686.0
x AOL Commissions (%)	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
= AOL E-Commerce Fees	0.0	0.0	0.7	7.0	31.0	82.2	148.5	245.1	377.3	552.9
% Change				880.9%	344.1%	165.5%	80.7%	65.0%	53.9%	46.5%
Total Advertising and E-Commerce Fees	0.1	2.2	15.8	59.5	153.8	318.3	545.7	839.6	1,204.2	1,660.9
% Change			2121.0%	630.8%	277.7%	158.3%	106.9%	71.5%	53.8%	43.4%

Source: Credit Lyonnais Securities estimates

**Exhibit 129: AOL Latin America Income Statement Projections**

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenues:									
Subscription	2.9	62.5	180.3	401.5	748.7	1,121.8	1,451.6	1,723.0	1,895.9
Advertising, E-Commerce Fees and Other Revenues									
Advertising	0.1	2.2	15.1	52.6	122.8	236.0	397.2	594.5	827.0
E-Commerce	0.0	0.0	0.7	7.0	31.0	82.2	148.5	245.1	377.3
Total Advertising and E-Commerce Fees	0.1	2.2	15.8	59.5	153.8	318.3	545.7	839.6	1,204.2
Total Consolidated AOL Latin America Revenues	3.0	64.7	196.0	461.1	902.5	1,440.1	1,997.3	2,562.6	3,100.1
% Change		2030.8%	203.1%	135.2%	95.8%	59.6%	38.7%	28.3%	21.0%
Costs of Revenues	(1.1)	(42.0)	(121.5)	(272.0)	(514.4)	(799.2)	(1,088.6)	(1,371.0)	(1,643.1)
Gross Profit	1.9	22.6	74.5	189.0	388.1	640.8	908.8	1,191.6	1,457.1
% Margin	64.1%	35.0%	38.0%	41.0%	43.0%	44.5%	45.5%	46.5%	47.0%
% Change		1064.3%	229.1%	153.8%	105.3%	65.1%	41.8%	31.1%	22.3%
Other Operating Costs:									
Sales and Marketing	(2.0)	(11.3)	(33.1)	(75.6)	(144.7)	(215.6)	(277.5)	(331.2)	(366.5)
Sales and Marketing per Average Analog Subscriber	(\$30.00)	(\$30.00)	(\$29.40)	(\$28.81)	(\$28.24)	(\$26.54)	(\$24.95)	(\$23.45)	(\$22.05)
Product Development (Excludes 1/3 of Depreciation)	(0.3)	(7.8)	(20.6)	(41.5)	(72.2)	(100.8)	(124.8)	(147.4)	(162.8)
General and Administrative	(2.0)	(9.7)	(25.5)	(50.7)	(60.9)	(73.0)	(84.0)	(92.4)	(101.6)
Total	(5.4)	(70.8)	(200.7)	(439.9)	(792.2)	(1,188.7)	(1,574.9)	(1,942.0)	(2,273.9)
EBITDA	(2.4)	(6.1)	(4.7)	21.2	110.3	251.4	422.4	620.7	826.2
% Margin	-78.1%	-9.5%	-2.4%	4.6%	12.2%	17.5%	21.2%	24.2%	26.7%
% Change				420.7%	127.8%	68.1%	46.9%	33.1%	26.2%
Depreciation and Amortization	(0.1)	(1.1)	(6.0)	(17.8)	(31.6)	(33.1)	(34.1)	(35.7)	(37.0)
Operating Income	(2.5)	(7.3)	(10.6)	3.4	78.7	218.2	388.3	585.0	789.3
% Margin		-11.2%	-5.4%	0.7%	8.7%	15.2%	20.7%	24.8%	25.5%
% Change				2215.1%	177.1%	78.0%	50.6%	34.9%	27.3%
Net Interest Expense	0.8	2.4	2.8	1.4	2.0	9.2	25.1	51.2	89.0
Pretax Income	(1.6)	(4.9)	(7.9)	4.8	80.7	227.4	413.4	636.2	878.3
% Margin	-54.2%	-7.6%	-4.0%	1.0%	8.9%	15.8%	20.7%	24.8%	28.3%
% Change				1574.8%	181.7%	81.8%	53.9%	38.1%	30.3%
Provision for Taxes	(0.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income	(1.8)	(4.9)	(7.9)	4.8	80.7	227.4	413.4	636.2	878.3
% Margin		-7.6%	-4.0%	1.0%	8.9%	15.8%	20.7%	24.8%	28.3%
% Change				1574.8%	181.7%	81.8%	53.9%	38.1%	30.3%

Source: Credit Lyonnais Securities estimates

Exhibit 130: AOL Latin America Margin Analysis

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Gross Margin	64.1%	35.0%	38.0%	41.0%	43.0%	44.5%	45.5%	46.5%	47.0%
Operating Costs as a % of Revenues									
Sales and Marketing	66.7%	17.5%	16.9%	16.4%	16.0%	15.0%	13.9%	12.9%	11.8%
Product Development	10.3%	12.0%	10.5%	9.0%	8.0%	7.0%	6.3%	5.8%	5.3%
General and Administrative	65.2%	15.0%	13.0%	11.0%	6.7%	5.1%	4.2%	3.6%	3.3%
Total	178.1%	109.5%	102.4%	95.4%	87.8%	82.5%	78.8%	75.8%	73.3%
EBITDA Margin	-78.1%	-9.5%	-2.4%	4.6%	12.2%	17.5%	21.2%	24.2%	26.7%

Source: Credit Lyonnais Securities estimates

Exhibit 131: AOL Latin America Cash Flow Projections

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Net Income	(1.8)	(4.9)	(7.9)	4.8	80.7	227.4	413.4	636.2	878.3
Depreciation and Amortization	0.1	1.1	6.0	17.8	31.6	33.1	34.1	35.7	37.0
After-Tax Cash Flow	(1.7)	(3.8)	(1.9)	22.6	112.3	260.6	447.5	671.8	915.2
Change in Net Working Capital	0.7	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
Contribution from Cieneros Group	35.0	43.0	22.0	6.0					
Effect of Exchange Rate Fluctuation	(0.1)								
Capital Spending	(0.5)	(9.7)	(29.4)	(69.2)	(45.0)	(35.0)	(35.0)	(35.0)	(35.0)
Free Cash Flow	33.4	27.5	(11.3)	(42.6)	65.3	223.6	410.5	634.8	878.2
Net Debt:									
Beginning	0.0	33.4	61.0	49.7	7.1	72.4	296.0	706.5	1,341.3
Ending	33.4	61.0	49.7	7.1	72.4	296.0	706.5	1,341.3	2,219.6
Average	16.7	47.2	55.3	28.4	39.8	184.2	501.2	1,023.9	1,780.5

Source: Credit Lyonnais Securities estimates

**Exhibit 132: AOL Latin America Depreciation Schedule**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Beginning PP&E	0.0	0.5	10.2	39.7	100.9	125.7	135.6	143.5	149.8	154.8
Capital Spending	0.5	9.7	29.4	69.2	45.0	35.0	35.0	35.0	35.0	35.0
Acquired PP&E										
Depreciation	(0.1)	(1.1)	(6.0)	(17.8)	(31.6)	(33.1)	(34.1)	(35.7)	(37.0)	(38.0)

Source: Credit Lyonnais Securities estimates

Exhibit 133: AOL Latin America DCF Valuation

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Free Cash Flow	33.4	27.5	(11.3)	(42.6)	65.3	223.6	410.5	634.8	878.2	1,145.3
Add: After-Tax Interest (0 if Net Cash)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow to Firm (FCFF)	33.4	27.5	(11.3)	(42.6)	65.3	223.6	410.5	634.8	878.2	1,145.3
Assumptions:										
Terminal Growth Rate	11.5%									
WACC	15.1%									
Terminal	27.8x									
Years to Discount	0	1	2	3	4	5	6	7	8	9
		0	1	2	3	4	5	6	7	8
			0	1	2	3	4	5	6	7
				0	1	2	3	4	5	6
					0	1	2	3	4	5
						0	1	2	3	4
							0	1	2	3
								0	1	2
									0	1
										0
Present Value of FCFF	33.4	23.9	(8.5)	(27.8)	37.0	109.7	174.7	234.4	281.2	318.1
		27.5	(9.8)	(32.0)	42.6	126.5	201.5	270.2	324.2	366.8
			(11.3)	(36.9)	49.1	145.9	232.3	311.6	373.8	422.9
				(42.6)	56.7	168.2	267.8	359.2	431.0	487.5
					65.3	193.9	308.8	414.2	497.0	562.1
						223.6	356.0	477.6	573.0	648.1
							410.5	550.6	660.7	747.3
								634.8	761.7	861.6
									878.2	993.4
										1,145.3
Sum of Present Value of FCFF Stream	1,176.2	1,317.6	1,487.4	1,727.9	2,041.3	2,278.3	2,369.0	2,258.1	1,871.6	1,145.3
Present Value of Terminal Value	9,880.7	11,392.2	13,134.9	15,144.3	17,461.0	20,132.1	23,211.8	26,762.7	30,856.7	35,577.0
Ending Net Cash (Debt)	33.4	61.0	49.7	7.1	72.4	296.0	706.5	1,341.3	2,219.6	3,364.9
Net Present Value	11,090.3	12,770.7	14,672.0	16,879.3	19,574.7	22,706.4	26,287.3	30,362.2	34,947.9	40,087.3
% Change		15.2%	14.9%	15.0%	16.0%	16.0%	15.8%	15.5%	15.1%	14.7%

Source: Credit Lyonnais Securities estimates



Other Companies Mentioned In This Report:

3Com Corp. (COMS-NASDAQ-\$80 11/16-NR)
 Adelphia Communications Corp. (ADLAC-NASDAQ-\$53 15/16-BUY)†(m)
 AT&T Corp. (T-NYSE-\$45-NR)
 Avis Rent A Car Inc. (AVI-NYSE-15 1/8-NR)
 Bell Atlantic Corp. (BEL-NYSE-\$47 9/16-NR)
 CBS Corp. (CBS-NYSE-\$53 3/16-BUY)
 CDNow Inc. (CDNW-NASDAQ-\$8 1/16-NR)
 Charter Communications Inc. (CHTR-NASDAQ-\$18 1/8-BUY)†(m)
 Coca-Cola Co. (KO-NYSE-\$48 11/16-NR)
 Comcast Corp. (CMCSA-NASDAQ-\$41 3/4-ADD)(m)
 Cox Communications Inc. (COX-NYSE-\$44 7/8-ADD)
 The Walt Disney Co. (DIS-NYSE-\$31-HOLD)
 DLJdirect (DIR-NASDAQ-\$9 3/4-NR)
 drkoop.com (KOOP-NYSE-\$9 3/8-NR)
 E*Trade Group, Inc. (EGRP-NASDAQ-\$22 1/4-NR)
 Excite@Home Corp. (ATHM-NASDAQ-\$34-NR)
 eBay Inc. (EBAY-NASDAQ-\$150 13/16-NR)
 EMI Group Plc. (EMI-London-£7.10-NR)
 Fox Entertainment Group Inc. (FOX-NYSE-\$23 1/2-HOLD)
 Globo Cabo SA (GLCBY-NASDAQ-\$21 1/2-NR)
 GTE Corp. (GTE-NYSE-\$56 3/8-NR)
 Hertz Corp. (HRZ-NYSE-36 1/2-NR)
 Liberty Media Group (LMGa-NYSE-\$54 1/16-BUY)†
 Lockheed Martin Corp. (LMT-NYSE-\$17 3/4-NR)
 Media Metrix Inc. (MMXI-NASDAQ-\$32 7/8-NR)
 MediaOne Group Inc. (UMG-NYSE-\$72 15/16-BUY)
 Medscape (MSCP-NASDAQ-\$11 7/8-NR)
 Meredith Corp. (MDP-NYSE-\$28-BUY)
 Microsoft Corp. (MSFT-NASDAQ-\$91 5/16-NR)
 Mitsui & Co. Ltd. (MITST-NASDAQ-\$127-NR)
 Motorola Inc. (MOT-NYSE-\$159 1/4-NR)
 NTL Inc. (NTLI-NASDAQ-\$92 1/2-NR)
 The New York Times Co. (NYT-NYSE-\$39 11/16-BUY)
 The News Corporation Ltd. (NWSa-NYSE-\$48 1/4-BUY)
 Primedia Inc. (PRM-NYSE-\$17 1/4-NR)
 Prodigy Communications Corp. (PRGY-NASDAQ-\$19 7/8-NR)
 Reader's Digest Association (RDA-NYSE-\$33 5/8-NR)
 SBC Communications Inc. (SBC-NYSE-\$35 2/16-NR)
 The Seagram Co. Ltd. (VO-NYSE-\$55 1/8-NR)
 Sportsline USA Inc. (SPLN-NASDAQ-\$36 1/2-NR)
 TRW Inc. (TRW-NYSE-\$46 3/8-NR)
 Telewest Communications Plc. (TWSTY-NASDAQ-\$71 1/4-NR)
 Terra Networks SA (TRRA-NASDAQ-\$134-NR)
 United Pan-European Communications (UPCOY-NASDAQ-\$189-NR)
 TheStreet.com (TSCM-NASDAQ-\$11 15/16-NR)
 Time Warner Telecom Inc. (TWTC-NASDAQ-\$73 5/8-NR)
 Viacom Inc. (VIAb-NYSE-\$50 11/16-ADD)
 USA Networks Inc. (USAI-NASDAQ-\$23 15/16-ADD)(m)
 Yahoo! Inc. (YHOO-NASDAQ-\$165 3/16-NR)

† Within the past three years, Credit Lyonnais Securities (USA) Inc. was the manager or co-manager of a public offering of the securities of this company and/or has performed other banking services for which it received a fee.

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